

## BUDGET STABILIZATION FUND

### Background

The Budget Stabilization Fund (BSF) for Arizona was enacted in 1990 (A.R.S. § 35-144). The fund is administered by the State Treasurer, who is responsible for transferring General Fund money into and out of the BSF as required by law. The BSF is designed to set revenue aside during times of above-trend economic growth and to utilize this revenue during times of below-trend growth.

### The Formula

There is a statutory formula to calculate the amount to be appropriated to (deposit) or transferred out (withdrawal) of the BSF. The formula is based on total annual Arizona personal income (excluding transfer payments) adjusted for inflation.

The January Budget documents of the JLBC and the Governor are to include estimates of the amounts to be appropriated to or transferred from the BSF for the upcoming budget year. The final determination of the amount to be appropriated or transferred is based on calculations from the Arizona Economic Estimates Commission (EEC). This final calculation is not made until June 1 of the budget year. The EEC determines the annual growth rate of inflation-adjusted total state personal income, the trend growth rate over the past 7 years, and the calculated appropriation to or transfer from the BSF. The EEC calculations however, do not result in any automatic deposits or withdrawals, as they must be authorized by legislative action. In practice, the formula has only served as a general guideline and has infrequently been used to determine the actual deposit or withdrawal.

Key features of the BSF can be summarized as follows:

- The deposit into or withdrawal from the BSF for a given fiscal year is determined by comparing the annual growth rate of inflation adjusted Arizona Personal Income (AZPI) for the calendar year ending in the fiscal year to the trend growth rate of inflation adjusted AZPI for the most recent 7 years.
- Adjusted personal income in the BSF formula is defined as total Arizona personal income less transfer payments, adjusted by the gross domestic product price deflator index.
- If the annual growth rate exceeds the trend growth rate, the excess multiplied by General Fund revenue of the prior fiscal year would equal the amount to be deposited into the BSF.
- If the annual growth rate of Arizona personal income is both less than 2% and less than the trend growth rate, the deficiency when multiplied by the General

Fund revenue of the prior year would equal the amount to be withdrawn from the BSF. This 2% floor avoids withdrawing monies from the BSF when economic conditions are slowing but there is not a recession.

- By a two-thirds majority, the Legislature, with the concurrence of the Governor, can decrease a deposit or increase a withdrawal.
- The BSF's total balance cannot be larger than 7.0% of the current year's General Fund revenues, excluding the beginning balance.
- In addition to the fixed income investments, the Treasurer is allowed to invest up to 25% of the BSF in equity securities.

### Alternative Uses

Laws 2000, 7th Special Session, Chapter 1 required that the refund payments for alternative fuel vehicle tax credits and Consumer Loss Recovery Fund liabilities would be funded by the Budget Stabilization Fund up to \$200 million. To pay for the alternative fuel tax credits, a total of \$119.1 million was transferred from the BSF to the General Fund between FY 2001 and FY 2007. According to the Department of Revenue, since all alternative fuel credits have been repealed and the statute of limitation has expired, no new claims, and thus no BSF transfers has occurred after FY 2007.

### Deposits/Withdrawals

#### FY 2007

Laws 2006, Chapter 344 provided a FY 2007 appropriation of \$9.8 million to the BSF. This appropriation was based on a 2006 mid-session estimate of the dollar amount required to bring the FY 2007 fund balance up to the cap. The actual deposit occurred in the beginning of FY 2008.

The General Accounting Office (GAO) determined that the BSF balance exceeded its maximum allowable limit by \$18.6 million in FY 2007. For this reason, GAO directed the State Treasurer's Office to transfer this excess amount to the General Fund. The actual transfer was made in the early part of FY 2008.

#### FY 2008

Laws 2008, Chapter 53 authorized a BSF transfer of \$487.0 million to the General Fund in FY 2008 to help balance the state budget. Moreover, Chapter 53 stipulated that if the FY 2008 General Fund ending balance is determined to be less than \$0, the Treasurer would be required to transfer an amount equal to the negative ending balance plus \$1.0 million from the BSF to the General

Fund. With an estimated shortfall of \$(99.0) million as of July 31, 2008, and the \$1.0 million ending balance requirement, there would be an estimated transfer of \$100.0 million from the BSF to the General Fund. This transfer would leave an estimated \$118.0 million in the BSF in the beginning of FY 2009. The actual amount to be transferred from the BSF to the General Fund will not be finalized until September 2008.

In comparison, the actual formula calculation would not have resulted in a FY 2008 BSF deposit. Arizona real adjusted personal income grew by 2.88% in CY 2007 compared to the 7-year average annual growth rate of 3.63%. Although the annual growth rate was (0.75)% below trend, it still remained 0.88% above the 2% floor. Since only one of the two requirements for withdrawals was met, the BSF formula recommended no change for FY 2008.

#### FY 2009

Laws 2008, Chapter 285 provided a transfer of \$20.0 million to the General Fund as a means to help balance the FY 2009 budget.

In terms of the FY 2009 formula calculation, Arizona real adjusted personal income is forecast to grow by 0.49% in CY 2008 compared to the trend growth rate of 3.46%. Since the annual growth rate is expected to be both less than the trend growth rate and 2.0%, the BSF formula is projected to recommend a BSF withdrawal of \$(271.5) million in FY 2009. This amount is greater than the potential FY 2009 balance of \$118.6 million and is greater than the \$20.0 million already approved by the Legislature.

Table 1

**Budget Stabilization Fund <sup>1/</sup>**  
**(<sup>\$</sup> in Thousands)**

	Actual FY 2006	Actual FY 2007	Estimate FY 2008	Estimate FY 2009
<b>General Fund Revenues</b>				
Adjusted Revenues	\$9,284,689.5	\$9,621,871.0	\$9,140,365.5	\$9,318,775.8
Statutory Limit of Revenues	7.0%	7.0%	7.0%	7.0%
Maximum Balance	649,928.3	673,531.0	639,825.6	652,314.3
<b>Arizona Personal Income in Prior CY</b>				
Real Adjusted Annual Income Growth	6.74%	5.96%	2.88%	0.49%
7-Year Average Income Growth	4.25%	3.98%	3.63%	3.46%
Annual Difference	2.49%	1.98%	(0.75)%	(2.97)%
<b>BSF Transactions</b>				
Beginning BSF Balance	160,834.4	501,612.8	676,979.8	118,640.4
BSF Formula Recommendation	190,912.8	173,913.0	0.0	(271,468.9)
<i>Actual Transfer In</i>				
Conditional Appropriation - L'05, Ch. 286, Part 1 <sup>2/</sup>	332,957.6	0.0	0.0	0.0
Conditional Appropriation - L'05, Ch. 286, Part 2 <sup>3/</sup>	0.0	148,000.3	0.0	0.0
Actual Appropriation – L'06, Ch. 344	0.0	0.0	9,808.6	0.0
Return of ASH Construction Fund Payments <sup>4/</sup>	0.0	0.0	2,216.4	0.0
SUBTOTAL	332,957.6	148,000.3	12,025.0	0.0
<i>Actual Transfer Out</i>				
Payment of Alternative Fuel Credits <sup>5/</sup>	(80.9)	(6.9)	0.0	0.0
Monies above 7% Cap Transferred to General Fund <sup>6/</sup>	0.0	0.0	(18,576.0)	0.0
Fund Transfer to General Fund – L'08, Ch. 53 <sup>7/</sup>	0.0	0.0	(487,000.0)	0.0
Conditional Transfer – L'08, Ch. 53 <sup>8/</sup>	0.0	0.0	(100,000.0)	0.0
Fund Transfer to General Fund – L'08, Ch. 285 <sup>9/</sup>	0.0	0.0	0.0	(20,000.0)
SUBTOTAL	(80.9)	(6.9)	(605,576.0)	(20,000.0)
Balance	493,711.1	649,606.2	83,428.8	98,640.4
Interest Earnings & Equity Gains/Losses <sup>10/</sup>	7,901.7	27,373.6	35,211.6	2,959.2
<b>Ending BSF Balance</b>	<b>\$501,612.8</b>	<b>\$676,979.8</b>	<b>\$118,640.4</b>	<b>\$101,599.6</b>
<b>Percent of Revenues</b>	<b>5.4%</b>	<b>7.0%</b>	<b>1.3%</b>	<b>1.1%</b>

1/ BSF history prior to FY 2006 can be found on the JLBC Web site.

2/ Actual revenues exceeded the budget forecast for the first 6 months of FY 2006, which triggered an appropriation of \$333.0 million to the BSF.

3/ Actual revenues exceeded the budget forecast for the last 6 months of FY 2006, which triggered an appropriation of \$148.0 million to the BSF. Actual BSF deposit was made in the beginning of FY 2007.

4/ According to the Treasurer's Office, an amount of \$2.2 million was returned to the BSF in August 2007 for previous payments related to the construction of the Arizona State Hospital (ASH).

5/ A total of \$(119.1) million was transferred from the BSF between FY 2001 and FY 2007 to pay for the alternative fuel tax credits. No new payouts are expected.

6/ According to the Treasurer's Office, the General Accounting Office (GAO) determined that the BSF exceeded the maximum allowable fund balance by \$18.6 million in FY 2007. For this reason, the Treasurer's Office transferred \$18.6 million from the BSF to the General Fund in FY 2008.

7/ Laws 2008, Chapter 53 authorized a transfer of \$(487.0) million to General Fund to help balance the FY 2008 budget.

8/ Laws 2008, Chapter 53 provides that if the FY 2008 General Fund ending balance is less than \$0, the Treasurer is required to transfer an amount equal to the negative ending balance plus \$1.0 million. The preliminary amount to be transferred (as of July 31, 2008) is \$(100.0) million. The final transfer amount will be determined in September 2008.

9/ Laws 2008, Chapter 285 authorized a transfer of \$(20.0) million to the General Fund to help balance the FY 2009 budget.

10/ Assumes a rate of return of 3.0% in FY 2009.